

REPORT ON IMPLEMENTATION AND OPERATION OF THE EARLY RETIREE REINSURANCE PROGRAM DURING CALENDAR YEAR 2010

Overview of ERRP

The Early Retiree Reinsurance Program (ERRP) was established by section 1102 of the Patient Protection and Affordable Care Act (the Affordable Care Act) enacted on March 23, 2010. Congress appropriated \$5 billion for this temporary program and directed the Secretary of Health and Human Services (HHS) to set up the program within 90 days of enactment. Accordingly, HHS published an Interim Final Rule to implement the ERRP on May 5 with an effective date of June 1, 2010, and the program began accepting applications on June 29, 2010. The ERRP is scheduled to end no later than January 1, 2014 and will serve as a bridge to the new health insurance marketplace to be established through State-based Health Insurance Exchanges in 2014.

The ERRP was designed to provide financial assistance for health plan sponsors – including for-profit companies, schools and other educational institutions, unions, State and local governments, religious organizations and other non-profits – to help early retirees and their families continue to have access to quality, affordable health coverage. People in the early retiree age group (i.e., ages 55 to 65) often face difficulties obtaining insurance in the individual market because of age or chronic conditions that make coverage unaffordable and inaccessible. The ERRP provides needed financial help to group health plans that provide health coverage to retirees and their families, who depend on this coverage for their health care needs. The ERRP reimburses participating plan sponsors for a portion of the costs of providing health coverage to early retirees and their spouses, surviving spouses, and dependents.

Eligibility Requirements

Employers and unions that maintain, either directly or through an insurer, an employment-based group health plan that provides health benefits to early retirees or the spouses, surviving spouses, and dependents of early retirees may participate in the ERRP. Sponsoring employers and unions that are accepted into the program can receive reinsurance reimbursement for a portion of the medical claims for health benefits, as specified by the Secretary, for early retirees age 55 and older who are not eligible for Medicare, and their spouses, surviving spouses, and dependents.

The Affordable Care Act requires participating employment-based plans to implement programs and procedures to generate cost savings with respect to enrollees with chronic and high-cost conditions. The Interim Final Rule explained that activities designed to generate cost savings for plan participants with chronic and high-cost conditions can promote better, more cost-effective management of these conditions because plan participants may be more apt to seek out proper and timely treatment and management when such services are financially manageable.

To participate in the ERRP, employers and unions must have an approved application, be able to document claims, implement programs and procedures that have the potential to generate cost savings for plan participants with chronic and high-cost conditions, and have policies and procedures in place to detect and reduce fraud, waste, and abuse, among other requirements.

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Employers that are plan sponsors are responsible for ensuring that individuals for whom claims are made under the ERRP are U.S. citizens or legally present in the U.S. For sponsors that are not employers, such as a board or committee that operates a multi-employer plan, the ERRP expects sponsors to make a reasonable, good faith effort to solicit written assurances from employers that contribute to its plan that the employer completed such tasks.

Reimbursements

Health benefits claims that qualify for reimbursement include medical, surgical, hospital, prescription drug, and other benefits, as determined by the Secretary of HHS. In general, the ERRP applies the Medicare benefit standard to determine whether a given item or service is a health benefit and thus eligible for ERRP reimbursement. The effect of this approach is to generally exclude ERRP reimbursement for services related to, for example, routine vision care, routine dental care, custodial care, abortion (except in the case of rape or incest, or where the life of the woman would be endangered), hearing aids, cosmetic surgery, infertility, and care outside the U.S.

ERRP provides reimbursement to participating sponsors of qualified plans providing health benefits to early retirees, their spouses, and surviving spouses and dependents equal to 80 percent of the actual cost of health expenses paid by or on behalf of an individual between a cost threshold (\$15,000) and cost ceiling (\$90,000). The cost threshold and ceiling will be adjusted in future years based on the Medical Care Component of the Consumer Price Index. Reimbursement may be used to reduce a sponsor's health benefit costs or health premium costs; plan participants' premium costs, co-payments, deductibles, co-insurance or other out-of-pocket health benefit costs; or a combination thereof. Program reimbursements may not be used for general revenue. ERRP reimburses qualified health benefit claims beginning on or after June 1, 2010 in order to provide needed funds to plan sponsors to assist with the support of their employment-based plans.

Program Results

Application Approvals

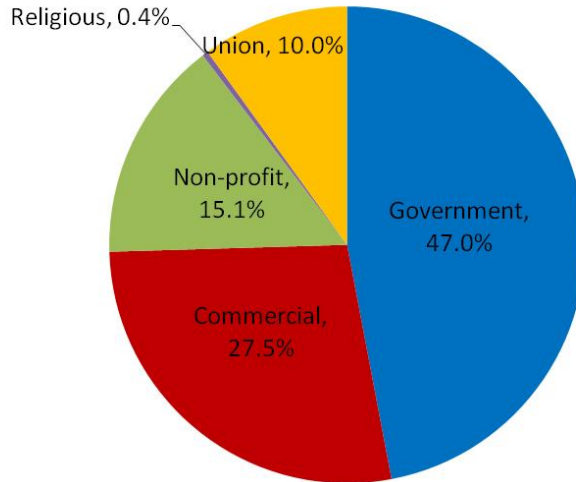
As of December 31, 2010, over 5,000 plan sponsors were approved for participation in ERRP. The number of approved sponsors varied significantly by State; in several States, more than 100 sponsors were approved. A State-by-State breakdown of approved sponsors is provided in Table 1.

Table 1
Approved ERRP Applications (i.e. Plans) by State, as of 12/31/2010

State	Approved Applications	State	Approved Applications
Alabama	34	Nebraska	40
Alaska	8	Nevada	24
Arizona	40	New Hampshire	39
Arkansas	11	New Jersey	192
California	518	New Mexico	5
Colorado	45	New York	521
Connecticut	141	North Carolina	129
Delaware	12	North Dakota	11
District of Columbia	33	Ohio	175
Florida	205	Oklahoma	28
Georgia	74	Oregon	102
Hawaii	13	Pennsylvania	350
Idaho	57	Puerto Rico	2
Illinois	337	Rhode Island	21
Indiana	220	South Carolina	37
Iowa	127	South Dakota	17
Kansas	57	Tennessee	92
Kentucky	33	Texas	200
Louisiana	62	Utah	38
Maine	16	Vermont	11
Maryland	106	Virginia	138
Massachusetts	207	Washington	79
Michigan	229	West Virginia	21
Minnesota	226	Wisconsin	188
Mississippi	12	Wyoming	7
Missouri	138		
Montana	24	TOTAL	5,452

State and local governments represent the majority of approved ERRP sponsors, followed by commercial organizations (see Figure 1). Participating entities may include States or subdivisions (e.g., counties, cities, special districts), or organizations representing government employees (e.g., teachers, police officers). For example, the Universities of Oklahoma, Arkansas, Iowa, and Indiana are approved sponsors, among others.

Figure 1
Approved ERRP Sponsors, by Type of Organization



Note: Organization types based on sponsors' self-categorizations. For example, some Taft-Hartley Health and Welfare Funds report themselves in the "non-profit" category while others report themselves in the "commercial" or "union" category.

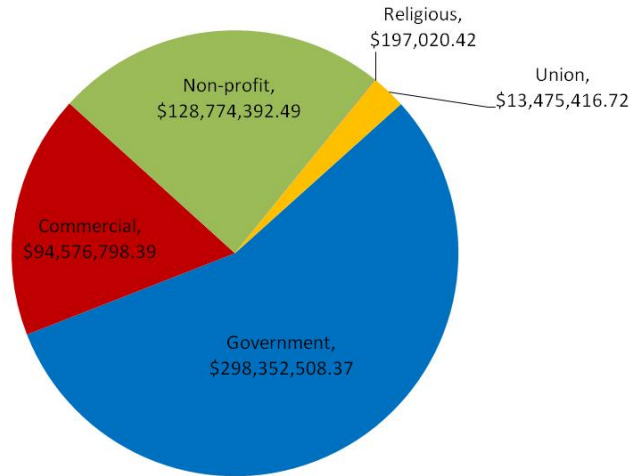
Program Reimbursements

Through December 31, 2010, ERRP issued \$535 million in reimbursements to 253 approved sponsor applications (i.e., plans). The largest share of these reimbursements went to State government-sponsored entities, followed by non-profit, commercial, union, and religious organizations. Payments made to individual sponsor health plans ranged from \$285.13 to \$108.6 million for claims in 2010. Approved sponsors sought reimbursement for the claims associated with 60,859 individuals who had total plan costs that exceeded the \$15,000 ERRP threshold.

The \$535 million in reimbursements provided in 2010 will directly or indirectly benefit millions of retirees, dependents and current workers. A selected sample of sponsors receiving approximately 58 percent of the funding disbursed in 2010 reported that program payments will benefit, either directly or indirectly, more than 4.5 million retirees, spouses, dependents, and active workers (See Table 5 for reporting sponsors).

Figure 2 provides the distribution of reimbursements to approved ERRP sponsors by their organizational type. This distribution includes all approved ERRP sponsors that received reimbursement during 2010.

Figure 2
Reimbursements to Approved ERRP Sponsors, by Type of Organization



Several State governments received reimbursement in 2010; reimbursement amounts for State governments varied from \$718,101 to more than \$57 million. A detailed breakdown of payments received by State governments is included in Table 2.

Table 2

Plan Sponsor	Reimbursement Received
California Public Employees' Retirement System	\$57,834,267
Commonwealth of Kentucky	\$29,666,516
Employees Retirement System of Texas	\$20,982,299
Georgia Department of Community Health, State Health Benefit Plan	\$34,916,832
Mississippi Department of Finance and Administration	\$5,462,645
Missouri Consolidated Health Care Plan	\$2,983,486
State and Education Employees Group Insurance Board	\$4,988,061
State of Arizona	\$2,456,920
State of Arkansas., Department of Finance and Administration	\$718,101
State of Louisiana, Division of Administration, Office of Group Benefits	\$6,085,967
State of Michigan	\$3,948,233
State of New Jersey Treasury Department, Pension Accounting Services	\$38,622,698

Reimbursement requests require plan sponsors to submit early retiree lists of plan participants whose incurred annual covered health costs exceeded the \$15,000 ERRP cost threshold. During

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2010, plan sponsors based their reimbursement requests on the claims of 60,859 individual plan participants, distributed among sectors as illustrated in Figure 3.

Figure 3

**Early Retirees Whose Costs Exceed the Cost Threshold,
by Type of Organization**

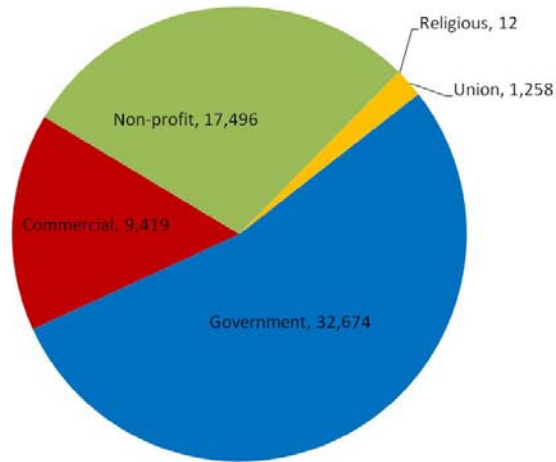


Table 3 displays reimbursement amounts, number of retirees with claims exceeding the cost threshold, and number of applications, by state.

Table 3

Data Associated with ERRP Applications that Received Payments in 2010			
State	Paid Amount	Number of Retirees with Claims Exceeding Cost Threshold	Number of Applications
AK	\$649,290.28	39	1
AR	\$911,576.47	132	2
AZ	\$2,499,053.32	267	2
CA	\$64,896,205.76	5,965	24
CT	\$19,121,584.33	2,119	4
DC	\$481,060.77	58	2
FL	\$305,996.09	42	5
GA	\$51,909,990.18	4,477	7
IA	\$660,454.26	76	5
IL	\$40,779,922.72	3,922	28
KS	\$1,792,150.16	196	2
KY	\$29,789,793.25	3,149	3
LA	\$6,108,480.26	1,953	2
MA	\$1,349,959.31	127	4
MD	\$26,995.90	5	2
MI	\$141,506,723.25	19,557	20
MN	\$4,243,495.28	546	39
MO	\$6,207,825.84	655	10
MS	\$5,512,810.27	528	2
NC	\$2,591,408.29	270	4
NE	\$227,863.83	16	2
NJ	\$45,824,556.80	4,710	12
NM	\$186,501.24	40	1
NY	\$4,800,391.41	521	15
OH	\$6,908,351.28	750	5
OK	\$5,057,540.92	508	5
OR	\$549,479.73	63	3
PA	\$10,125,638.11	929	5
TN	\$1,766,299.56	192	10
TX	\$74,413,108.77	8,690	15
VA	\$3,044,309.33	274	3
WA	\$238,141.06	16	3
WI	\$589,232.69	51	5
WV	\$299,945.67	16	1
Total	\$535,376,136.39	60,859	253

Plans that received ERRP reimbursements during 2010 indicated to HHS that they would use the funds as follows:

- 20% of plans will use reimbursements to reduce the sponsor’s health benefit costs or the sponsor’s health benefit premium costs;
- 20% of plans will use reimbursements to reduce, or offset increases to, individual plan participants’ premium costs, co-payments, deductibles, co-insurance or other out-of-pocket health benefit costs; and
- 60% of plans will use reimbursements for a combination of reducing sponsor and plan participants’ costs.

Thus, 80% of plans who received reimbursement in 2010 – 205 plans that claimed 59,346 individuals for reimbursement – used or will use some or all of the ERRP funding received to reduce or offset increases to the amounts that enrollees pay for health care or coverage. These sponsors collectively account for nearly \$521 million in program reimbursement, or 97 percent of the program reimbursement in 2010 (see Figure 4).

Figure 4
Indicated Use of ERRP Reimbursements
by Approved Sponsors

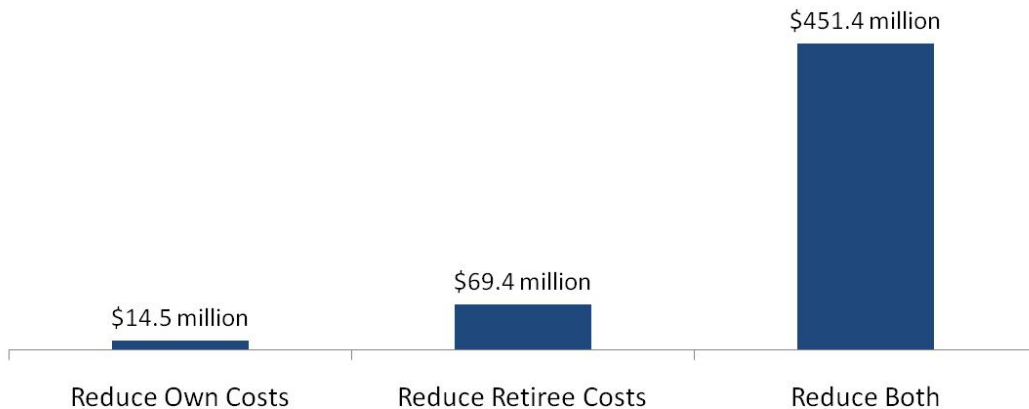


Table 4 summarizes, by state, the data associated with plan sponsors that indicated that they would use some or all of the reimbursements received under the ERRP to reduce retiree costs.

Table 4

Data Associated with Applications Using Funds to Reduce Retiree Costs or Both the Sponsor and Retiree Costs			
State	Paid Amount	Number of Retirees	Number of Applications
AZ	\$2,499,053.32	267	2
CA	\$64,582,615.58	5,934	23
CT	\$19,121,584.33	2,119	4
DC	\$481,060.77	58	2
FL	\$305,996.09	42	5
GA	\$51,909,990.18	4,477	7
IA	\$600,636.93	61	3
IL	\$39,784,357.42	3,817	17
KS	\$1,750,446.49	193	1
KY	\$29,789,793.25	3,149	3
LA	\$6,085,966.54	1,951	1
MA	\$1,325,298.09	124	3
MD	\$26,995.90	5	2
MI	\$139,299,826.21	19,279	16
MN	\$2,370,463.59	311	31
MO	\$6,161,108.40	651	9
MS	\$5,512,810.27	528	2
NC	\$2,591,408.29	270	4
NE	\$227,863.83	16	2
NJ	\$45,757,440.48	4,698	11
NM	\$186,501.24	40	1
NY	\$1,753,195.84	219	10
OH	\$6,238,739.04	711	4
OK	\$5,057,540.92	508	5
OR	\$549,479.73	63	3
PA	\$10,125,638.11	929	5
TN	\$1,634,300.91	186	9
TX	\$74,209,412.58	8,674	12
VA	\$116,667.07	7	1
WA	\$15,884.68	2	2
WI	\$552,474.64	41	4
WV	\$299,945.67	16	1
Total	\$520,924,496.39	59,346	205

Some sponsors have already applied ERRP funds to reduce costs for plan participants. For example, CalPERS, the California Public Employees’ Retirement System, requested reimbursement on behalf of 5,302 early retirees, spouses, surviving spouses, and dependents in 2010. In anticipation of ERRP reimbursement CalPERS worked with its benefits carriers to mitigate 2011 premium increases by three percent – a savings of up to \$200 million. According to CalPERS officials, the ERRP funding will directly benefit 1.1 million public employees, retirees, and their dependents (including 115,000 ERRP eligible early retirees), many of whom have been subject to declining wages due to state furloughs imposed to address budget shortfalls.

The sponsors that received some of the largest reimbursement amounts in 2010 report that program payments will benefit, either directly or indirectly, more than 4.5 million retirees, spouses and surviving spouses, dependents, and other plan participants. An illustration of the direct and indirect effects of ERRP funds on plan participants is in Table 5.

**Table 5
Detailed Breakdown of Plan Participants for Selected Sponsors***

Plan Sponsor	Early Retirees with Claims above Cost Threshold	Total Plan Participants (incl. Active Workers)
United Auto Workers Retiree Benefits Trust	11,679	852,900**
CalPERS	5,302	1,100,000
State of New Jersey Treasury Department	4,040	829,000
Commonwealth of Kentucky	3,136	290,000
Georgia Department of Community Health	2,832	696,000
Employees Retirement System of Texas	2,772	525,000
State of Louisiana	1,951	224,000
Alcatel-Lucent USA Inc.	1,141	125,000**

*Note: Data points approximate.

** Plan enrollment does not include active workers

Sponsors’ Programs to Address Chronic and High Cost Conditions

The ERRP regulation requires ERRP plan sponsors to have programs and procedures in place to generate cost-savings, or that have the potential to generate cost savings, with respect to plan participants with chronic and high cost conditions. The ERRP application requires sponsors to describe their programs and procedures. Examples of specific programs for approved program participants include the following:

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- A major computer systems manufacturer applies prescription drug utilization management to encourage participants to utilize cost-effective drugs, and works with prescribing physicians to facilitate changes in therapy and utilization.
- A national technology company offers customized telephone counseling from a clinician, as well as education, and tools that enable plan participants to manage their conditions more effectively.
- Both a teachers' retirement plan and a major telecommunications corporation, among other sponsors, manage costs through separate Disease Management Programs to control costs for conditions such as coronary artery disease, chronic obstructive pulmonary disease, diabetes, asthma, and osteoarthritis.
- A city government provides case management services to facilitate coordination of complex care needs and services, maximize plan participants' effective use of the services available under the health benefit plan, and increase plan participants' knowledge about plan resources and tools for health care decision-making.
- A teachers' retirement plan seeks to manage costs following hospitalizations through post-discharge planning. Specifically, a nurse reviewer works with the hospital or other in-patient facility to develop a transition plan from one level of care to the next and to ensure patients' post-discharge needs are met.

Program Administration

The Centers for Medicare & Medicaid Services (CMS) utilizes contractors to manage the ERRP information technology (IT) and program operations. The ERRP IT/Operations contractor established the ERRP public website (<http://www.errp.gov>) in June 2010 to communicate with program stakeholders. To date, the website has been visited more than 160,000 times. The contractor also implemented and maintains secure systems and software to make reimbursements to sponsors, store data, and report program data. Additionally, the contractor supports CMS in delivering valuable and timely education, training, and outreach materials to sponsors. For example, CMS is about to publish educational materials to assist sponsors with the submission of more detailed claims data with each reimbursement request.

The ERRP Contact Center contractor responds to telephone and email inquiries, refers technical issues to the IT/Operations contractor, and conducts special outreach projects as needed. By the end of 2010 the ERRP Call Center had received nearly 10,000 phone calls and over 3,000 emails. Special outreach projects may be necessary from time to time to increase the sponsors' understanding of and compliance with program rules and operations. The contractor also participates in testing systems developed by the IT/Operations Contractor.

With the assistance of the contractors, the ERRP launched the secure website on August 30, 2010. Claims reimbursement began in October 2010.

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Conclusion

Program experience in 2010 indicates that ERRP is already having a meaningful impact on employers, as well as for millions of early retirees and their families. There is substantial participation from all major sectors of the economy, with additional sponsors applying to participate every day. Early data indicate that the majority of ERRP plan sponsors are using some or all funds received to reduce health care costs for plan participants. The program also has indirect benefits, such as ensuring the availability of programs to manage high-cost and chronic conditions. In sum, early program data indicate that ERRP is realizing the purpose envisioned by Congress: preserving access to affordable health coverage for millions of early retirees, active workers, and their families